

**GWINN AREA COMMUNITY SCHOOLS  
GWINN, MICHIGAN**

**FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008**

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## INDEPENDENT AUDITORS' REPORT

Board of Education  
Gwinn Area Community Schools  
Gwinn, Michigan 49841

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gwinn Area Community Schools, Gwinn, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Gwinn Area Community Schools' basic financial statements as listed in the table of contents. These financial statements are the responsibility of Gwinn Area Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Gwinn Area Community Schools as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 24, 2008, on our consideration of the Gwinn Area Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 6 through 16 and 42 through 43, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Education  
Gwinn Area Community Schools  
Gwinn, Michigan

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Gwinn Area Community Schools basic financial statements. The combining and individual non-major fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Gwinn Area Community Schools. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

October 24, 2008

## GWINN AREA COMMUNITY SCHOOLS

YEAR ENDED JUNE 30, 2008

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Gwinn Area Community Schools is a K-12 Public School District located in Marquette County, Michigan. Our discussion and analysis of Gwinn Area Community Schools financial performance provides an overview of the School District's financial activities for the year ended June 30, 2007. Please read it in conjunction with the financial statements, which immediately follow this section.

### Financial Highlights

- Net assets for Gwinn Area Community Schools as a whole were reported as \$3,441,076. Net assets are comprised of 100% governmental activities.
- During the year, Gwinn Area Community Schools expenses were \$12,766,774, while revenues from all sources totaled \$12,885,246, resulting in an increase in net assets of \$118,472.
- September 2007 enrollment decreased 20.93 FTEs over the prior year. The district was able to qualify for declining enrollment assistance under section 6(4)(y) of the State Aid School Act which allows the district's average three year membership to be used in funding calculations.
- The Foundation Allowance increased \$119 to \$7,204 per student.
- It was again necessary for the district to borrow from the Michigan Municipal Bond Authority (MMBA). The short-term agreement was for \$1,500,000 and was paid back in full in August 2008.
- The general fund reported an increase in fund balance of \$107,405 after other financing sources (uses). This is \$111,511 more than the forecasted decrease of \$4,106, which is a net result of revenues totaling \$24,162 more and expenditures \$87,349 less. Both of these do not include Federal program grants. In addition, net transfers ended up coming in at \$38,118 better than anticipated. These variances are all immaterial, less than 1%, when compared with budgeted revenues/transfers of \$12,998,606 and budgeted expenditures/transfers of \$13,002,712. There were no significant variances between the final budget and actual amounts.

### Overview of the Financial Statements

This annual report consists of three parts: Management's discussions and analysis (this section), the basic financial statements, and required supplementary information. Generally Accepted Accounting Principles (GAAP) through GASB 34 requires the reporting of two types of financial statements: District-Wide Financial Statements and Fund Financial Statements.

- The first type, *District-Wide Financial Statements (Government-Wide Financial Statements)*, consist of two statements: Statement of Net Assets and Statement of Activities. These provide both short-term and long-term information about the district's overall financial status.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

- The second type, *Fund Financial Statements*, focus on individual parts of the district. These *Governmental Funds Statements* tell how basic services were financed in the short term as well as what remains for future spending. They report the district's operations in more detail than the District-Wide Statements by providing information about the District's most significant fund – the General, with all other funds presented in one column as non-major funds.
- The remaining statement, the Statement of Fiduciary Net Assets, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

The financial statements also include notes that further explain dollar amounts and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year.

### District-Wide Financial Statements

The one thing all stake-holders (parents, teachers and community members) want to know is the financial condition of the District as a result of the year's activities. The District-Wide Financial Statements report information about the District as a whole and about its activities by using the accrual basis of accounting similar to those used by private-sector companies. The two required District-Wide Financial Statements are the *Statement of Net Assets* and the *Statement of Activities*. The *Statements of Net Assets* includes all of the District's assets and liabilities. The *Statement of Activities* includes all of the current year's revenues and expenditures regardless of when cash is received or paid.

Net Assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position. Over time, **increases or decreases in the district's net assets are an indicator of whether its financial position is improving or deteriorating, respectively** (see charted titled Net Assets 2004 – 2008). The relationship between revenues and expenditures is the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as private-sector companies do. To assess the District's overall health, you need to consider additional non-financial factors such as the quality of education provided, the safety of the schools, changes in the property tax base and the condition of school buildings and other facilities.

In the District-Wide Financial Statements, the Statement of Activities is divided into two categories:

- Governmental activities: The District's basic services are included here, such as regular and special education, transportation and administration. Property taxes, State Aid and grants finance these activities.
- Business-type activities: The District does not have any activities reported as business-type activities.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

### Fund Financial Statements

Fund Financial Statements are reported on a modified accrual basis. Only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent that they are expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition, no asset is reported and the issuance of debt is recorded as a financial resource. The current year's payment of principal and interest on long-term obligations are recorded as expenditures, however, future year's debt obligations are not recorded. The Fund Financial Statements are formatted to comply with the legal requirements of the Michigan Department of Education's “Accounting Manual”. In the State of Michigan, the following fund types and related activities are described as follows:

*Governmental Funds* – All of the District's services are reported in governmental funds, which include the general fund, food service fund, athletic fund, capital projects fund, and debt service fund. They focus on how money flows into and out of those funds and the remaining balances at year-end. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.

*Fiduciary Funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The district excludes these activities from the District-Wide Financial Statements because it cannot use these assets to finance its operations.

### Financial Analysis of the District as a Whole

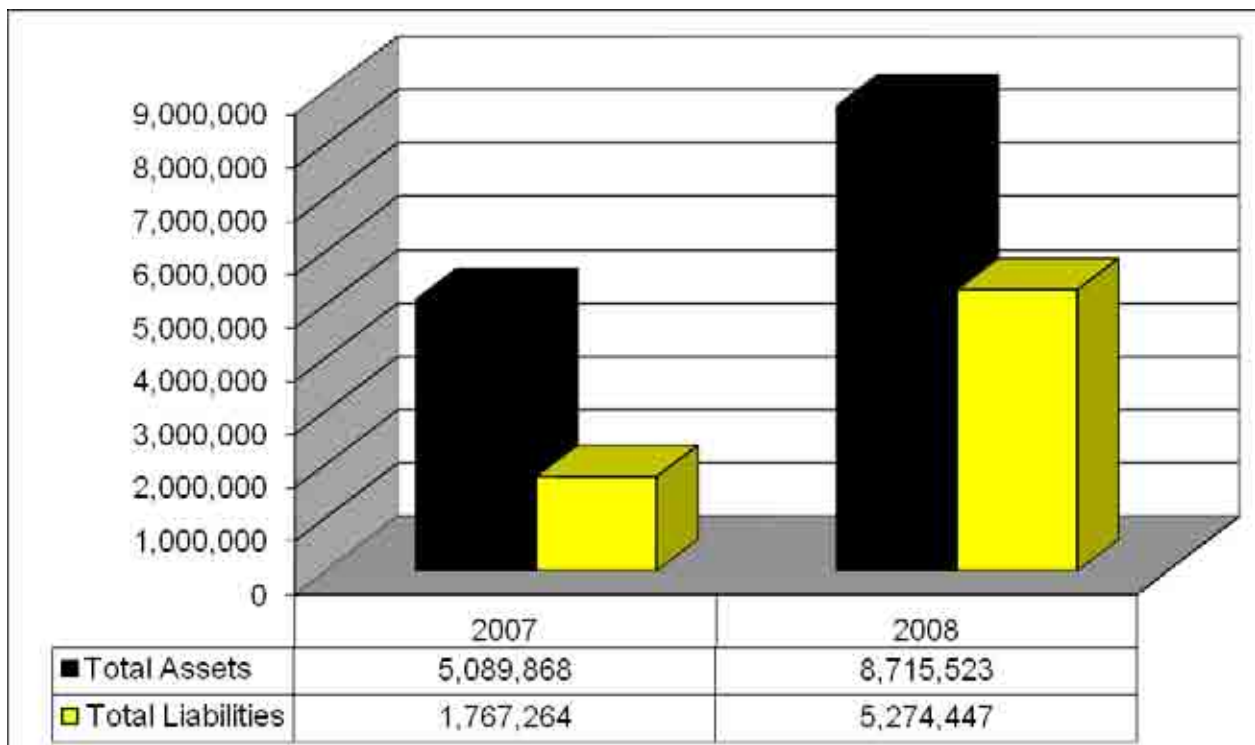
The condensed Statement of Net Assets as of June 30, 2008 and 2007 is as follows:

		Governmental Activities	
		2008	2007
Current Assets		\$6,294,236	\$3,540,134
Capital Assets, net		2,421,287	1,549,734
	Total Assets	8,715,523	5,089,868
Current liabilities		2,909,052	1,305,721
Non-current liabilities		2,365,395	461,543
	Total Liabilities	5,274,447	1,767,264
Investment in Capital Assets, Net of Related Debt		421,287	1,347,127
Restricted for:			
Capital Projects		1,325,998	-
Other		353	-
Unrestricted		1,693,438	1,975,477
	Total Net Assets	\$3,441,076	\$3,322,604

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

The District's net assets were \$3,441,076 at June 30, 2008. This is broken down into three categories. 1) Capital assets, net of related debt: this category totaled \$421,287 and consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowing that is attributable to the acquisition. 2) Restricted: Capital Projects and the Food Service Fund had restricted net assets in the amounts of \$1,693,438 and \$353, respectively. 3) Unrestricted: the remaining amount of net assets of \$1,693,438 is unrestricted. These all represent the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unreserved net assets from year to year.

### Assets and Liabilities 2007 vs. 2008 – Statement of Net Assets



## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

The results of this year's operation for the District as a whole are reported in the Statement of Activities (see table below), which shows the changes in net assets for fiscal year 2008.

The condensed Statement of Activities for the fiscal year ended June 30, 2008 and 2007 is as follows:

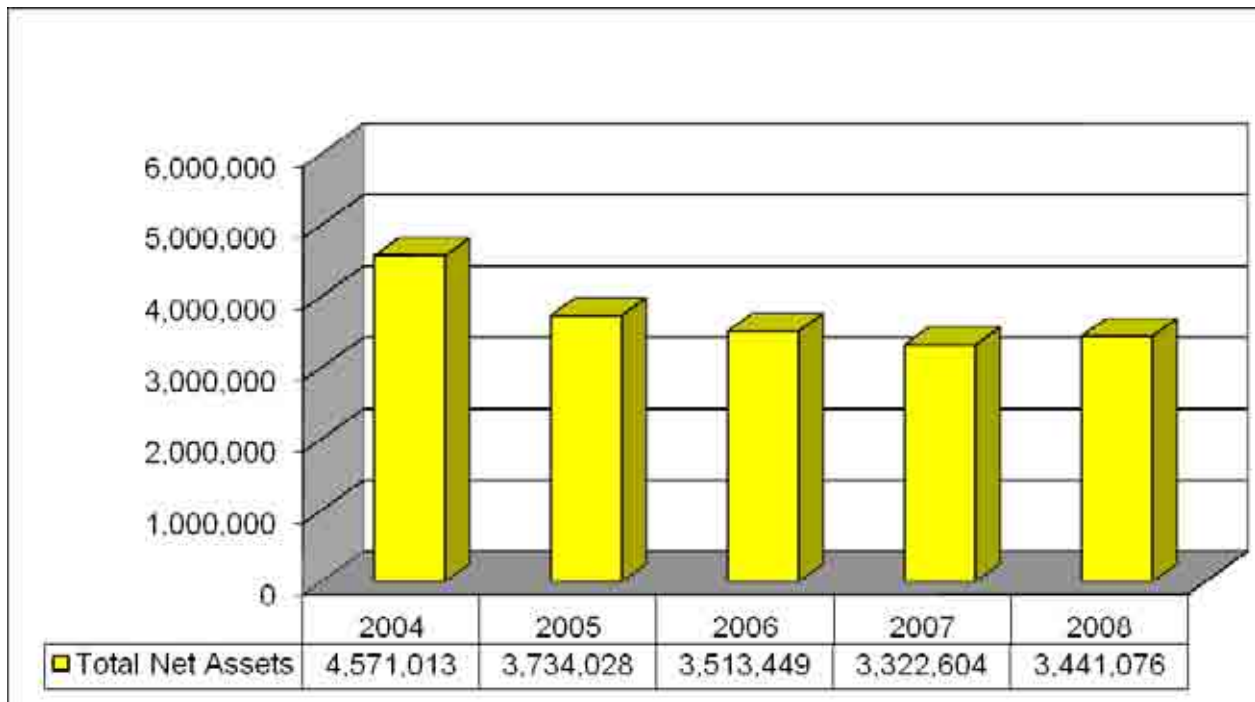
		Governmental Activities	
		2008	2007
Revenues:			
Program revenues:			
Charges for Services		\$ 278,945	\$ 306,072
Operating Grants and Contributions		2,655,933	2,679,449
General Revenues			
Property taxes, levied for general purposes		1,601,006	1,490,196
State of Michigan aid, unrestricted		8,196,407	8,491,654
Interest and investment earnings		99,295	96,954
Other		53,660	109,170
Total Revenues		\$12,885,246	\$13,173,495
Program Expenses:			
Instruction and instructional support		\$ 7,004,336	\$ 7,587,998
Support Services		4,568,535	4,617,568
Food Services		575,113	561,554
Athletics		271,162	275,912
Capital projects (un capitalized)			1,135
Community services		84,463	74,620
Payments to other governmental units			10,857
Other		16,852	
Depreciation (unallocated)		246,313	234,696
Total Expenses		\$12,766,774	\$13,364,340
Change in Net Assets		118,472	(190,845)
Beginning Net Assets		\$ 3,322,604	\$ 3,513,449
Ending Net Assets		\$ 3,441,076	\$ 3,322,604

As reported in the Statement of Activities, the cost of all our governmental activities this year was \$12,766,774. Certain activities were partially funded from those who benefited from the programs (\$278,945) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$2,655,933). We paid for the remaining "public benefit" portion of our governmental activities with \$8,196,407 in State Foundation Allowance, \$1,601,006 in taxes, and other revenues/sources, such as interest, general entitlements and fund balance.

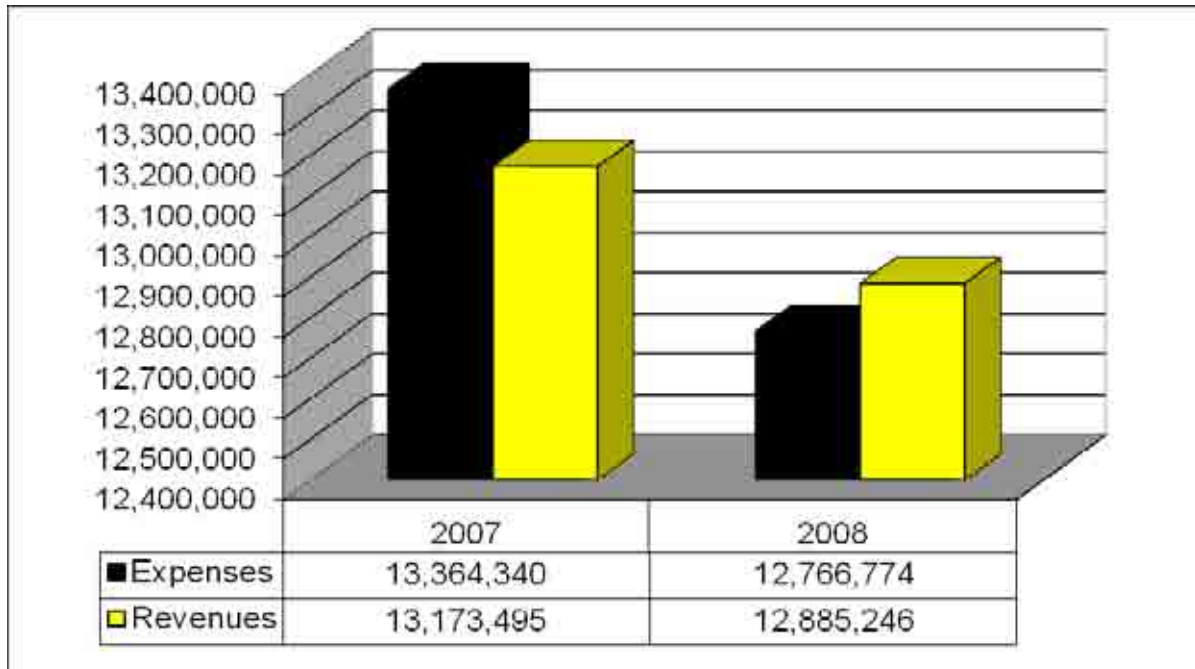
The District experienced an increase in net assets for the year of \$118,472. Key reasons for the change in net assets were as follows:

- Net increase in governmental fund balances of \$1,284,538, the majority of it being the QZAB
- Depreciation charged to expense in the amount of (\$246,313)
- Purchase of capital assets in the amount of \$1,117,866
- Qualified Zone Academy Bonds in the amount of (\$2,000,000)
- Compensated absences not reported as expenditures in the amount of (\$37,619)

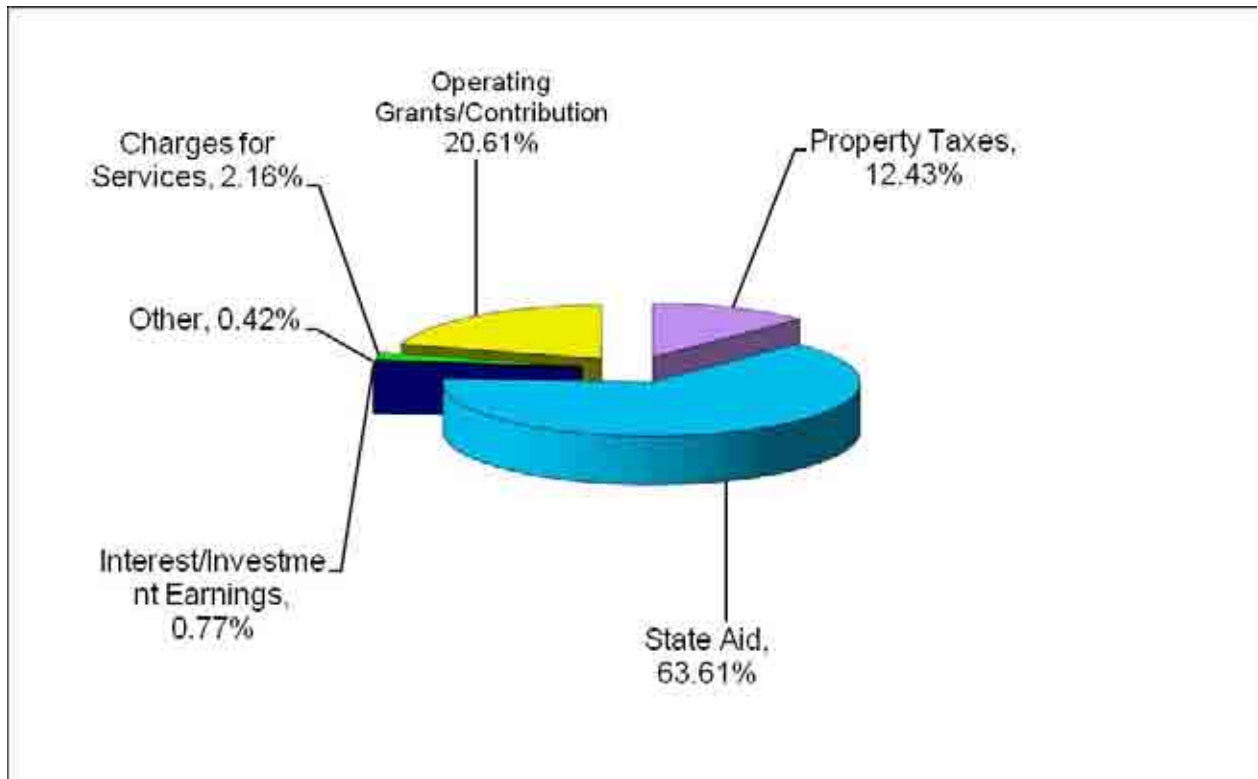
**Net Assets 2004 – 2008**

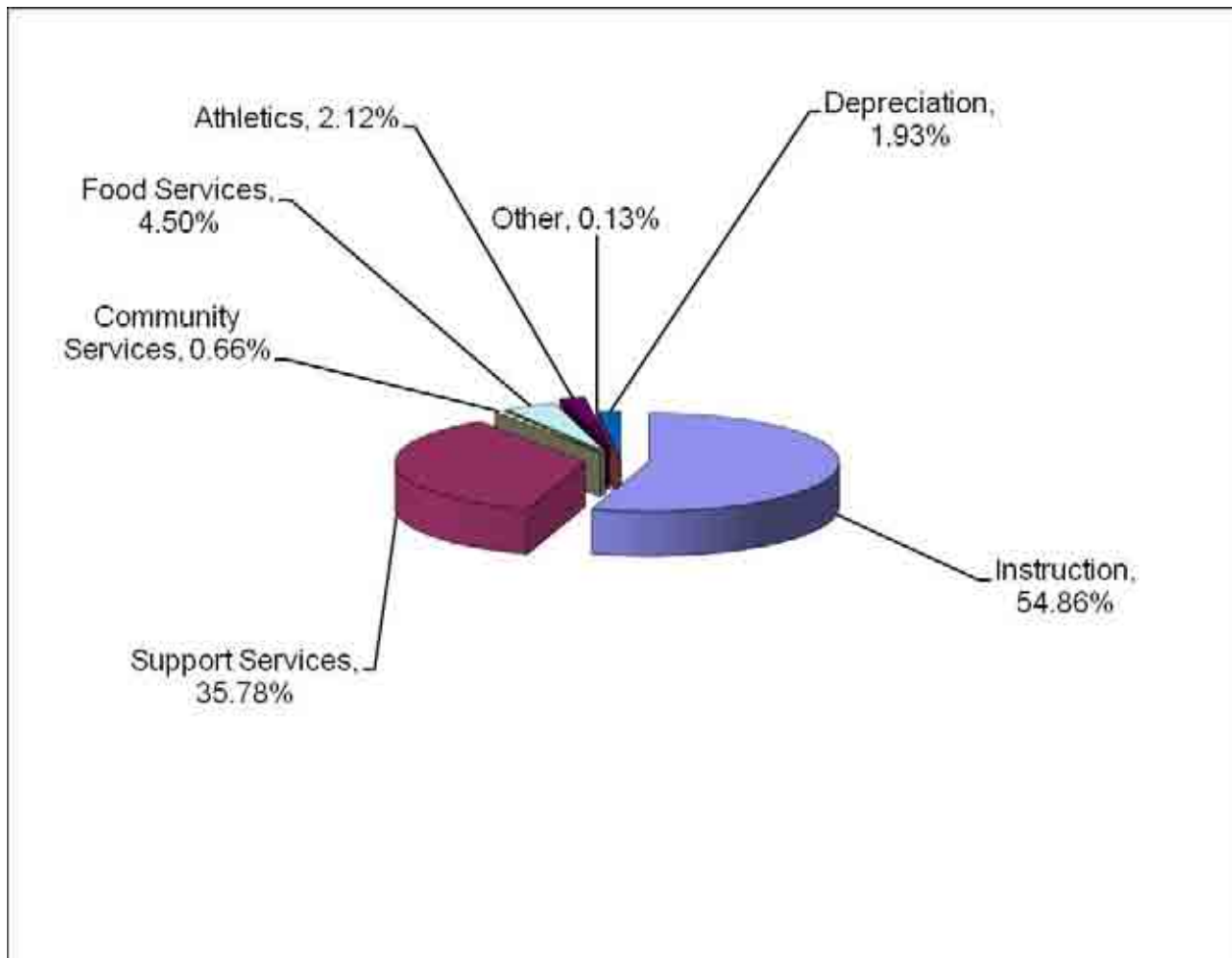


**Revenues and Expenses 2007 vs. 2008 – Statement of Activities**



*Sources of Revenues for Fiscal Year 2008 – Statement of Activities*



**Expenses for Fiscal Year 2008 – Statement of Activities**

The following table presents the cost of each of the District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). Total costs were \$12,766,774; however, the following table excludes \$263,165 of costs related to depreciation (\$246,313) and a miscellaneous category (\$16,852).

<b><i>Governmental Activities</i></b>	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Instruction	\$7,004,336	\$7,587,998	\$4,812,901	\$5,448,677
Support Services	4,568,535	4,617,568	4,466,173	4,398,854
Food Services	575,113	561,554	(3,870)	13,828
Athletics	271,162	275,912	209,064	205,067
Community Services	84,463	74,620	84,463	65,705
<b>Totals</b>	<b>\$12,503,609</b>	<b>\$13,117,652</b>	<b>\$9,568,731</b>	<b>\$9,816,303</b>

The net cost shows the financial burden that each function placed on the District's operations, taxpayers and State. Since property taxes for operations and unrestricted State Aid constitutes 12% and 64%, respectively, of the District's operating revenue sources (as shown in the pie chart), the Board of Education and Administration must annually evaluate the needs of the District and balance those needs with the State-prescribed available financial resources.

### **Financial Analysis of the District's Funds**

The District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District's overall financial health.

As the District completed the year, its governmental funds, as presented in the balance sheet, reported a combined fund balance of \$3,526,769, an increase of \$1,284,538 from the beginning of the year. The change in the combined fund balance was due to the increase of fund balance in the General Fund, the creation of the QZAB fund with projects left to be completed as of June 30, 2008 and the \$119,857 increase in reserve fund balance in the Capital Projects Fund. The decision to reserve the Capital Projects fund balance and carry it over to the 2008-2009 school year was so that it could fund the first QZAB debt service payment.

#### ***General Fund Budgetary Highlights***

The Uniform Budget Act of the State of Michigan requires the Board of Education approve the original budget for the upcoming fiscal year prior to the start of its fiscal year, which is July 1. Over the course of the year, the District's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. For fiscal year 2008, the budget was amended in February 2008 and again in June 2008. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Changes to the General Fund original and amended budgets included the following:

- Used the 3-year average of student count due to declining enrollment of 1409 in the original budget and 1405 in the final.
- The original budget assumed per pupil funding of \$7,085 per student and the final budget was adjusted to \$7,204.
- The final budget included the added categorical 22d.4, Isolated Districts, which is for transportation in rural districts.
- Updated all grant allocations and expenditures
- Decreased special education payments from MARESA due to increased usage of services
- QZAB was approved and the sale of those bonds reimbursed the General Fund for the roof and stadium lighting projects

### **Capital Asset and Debt Administration**

#### ***Capital Assets***

At June 30, 2008 and 2007, the District had and \$9,102,597 and \$7,984,731, respectively invested in a variety of capital assets including land, buildings, and machinery and equipment.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

	Governmental Activities	
	2008	2007
<b><i>Capital Assets at Year-End</i></b>		
Land	\$ 37,293	\$ 37,293
Construction in progress	224,106	-
Building & grounds	6,592,999	5,844,238
Site improvements	342,300	342,300
Machinery & equipment	669,072	628,186
Vehicles	1,236,827	1,132,714
Totals	<u>\$9,102,597</u>	<u>\$7,984,731</u>

This year's addition of \$1,117,866 included a new roof at the high school, stadium lights, a bus, a food service truck, computers, upgraded electrical throughout the high school and renovated bathrooms and locker rooms at the high school. The district applied for a Qualified Zone Academy Bond in the amount of \$2,000,000 which was awarded and proceeds received in December of 2007. We present more detailed information about our capital assets in the notes (Note H)

At June 30, 2008 and 2007, the School District had \$2,202,607 and \$202,607, respectively, in the School Improvement Bond, Series 1998 and QZAB.

	Governmental Activities	
	2008	2007
<b><i>Outstanding Debt at Year-End</i></b>		
School Improvement Bonds	\$ 202,607	\$ 202,607
Qualified Zone Academy Bonds	2,000,000	-
Totals	<u>\$ 2,202,607</u>	<u>\$ 202,607</u>

There was no change in the School Improvement Bonds from 2007 because the MMBA altered the payment schedule. We present more detailed information about our long-term debt in the notes (note F) to the financial statements.

### Factors Bearing on the District's Future

Our elected officials and administration consider many factors when setting the District's fiscal year 2009 budget. One of the most important factors affecting the budget is our student count. Generally, State Aid is determined by multiplying the blended student count (25% of the previous February and 75% of the current September count) by the foundation allowance per pupil. However, since the district is located in a rural area (less than 4.5 pupils per square miles) and is small (less than 1,550 pupils) we were able to use our 3-year average blend, which is the current year blend (25% of the February 2007 and 75% of September 2007 counts) plus the two immediately preceding years blend. The 2009 fiscal year budget, adopted in June 2008, was based on an estimate that 1,355 students will be enrolled in September 2008 and an increase in foundation allowance of \$142. Understand this: **over half of the District's General Fund revenues are based on an estimate at the time of adoption** (student enrollment and foundation allowance).

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

Assuming the state determines the amount of foundation allowance in a timely manner, these estimates do not become facts until the end of the 3rd month of operations when an official pupil count is taken. Under State law, the District cannot assess additional property tax revenue for general obligations. As a result, the district funding is heavily dependent on the State's ability to fund local school operation.

Declining enrollment is an issue that continues to be of concern. The district normally experiences unstable enrollment patterns so we have not been able to depend on the results an enrollment study. However, over the past two years the forecast was very close to the actual September count. The enrollment forecast is for a continuation in decline. Although we will not depend entirely on the forecast in future budgeting, it will have an influence.

There were no employment contracts to settle during the 07-08 school year. However the GESPA and teamster contract will be negotiated at the end of the 08-09 year and the administrator and teacher contract will be negotiated at the end of the 09-10 year.

A financially sound district is one that routinely balances its budget and does not have to borrow to pay normal reoccurring bills. This year it was necessary to borrow \$1,000,000 from the MMBA to bridge the cash flow gap, primarily due to the timing in state aid payments. This is \$500,000 less than last year (07-08) but additional funds were borrowed to pre-fund the high school roof replacement in anticipation of the QZAB being approved during that year. The district borrowed \$600 in 06-07 year. It will cost the district \$5,877 to issue \$1,000,000 in bonds and an additional \$17,000 in interest for a total cost to borrow of 22,877. This is an effective interest rate of 2.3% and the loan is scheduled to be paid in full in August of 2009.

The Board of Education is continuing to address its infrastructure needs by seeking requests for information from energy savings companies. We are hopeful that a company can identify projects where new, energy efficient equipment can result in energy savings equal to or more than the cost of the equipment.

### **Contacting the District's Financial Management**

This financial report is designed to provide the district's citizens, taxpayers and parents with a general overview of the district's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, Gwinn Area Community Schools, 50 W. M-35, Gwinn MI, 49841.

**GWINN AREA COMMUNITY SCHOOLS**

**Statement of Net Assets**

**June 30, 2008**

	<b>Governmental Activities</b>
<b>ASSETS:</b>	
<b>Current assets:</b>	
Cash and cash equivalents	\$ 1,865,386
Investments	2,301,180
Receivables:	
Accounts receivable	47,106
Due from other governmental units	2,002,505
Inventories	34,000
Prepaid expense	44,059
	<hr/>
<b>TOTAL CURRENT ASSETS</b>	6,294,236
	<hr/>
<b>Non-current assets:</b>	
Land	37,293
Construction in progress	224,106
Capital assets	8,841,198
Less accumulated depreciation	(6,681,310)
	<hr/>
<b>TOTAL NON-CURRENT ASSETS</b>	2,421,287
	<hr/>
<b>TOTAL ASSETS</b>	8,715,523
	<hr/>
<b>LIABILITIES:</b>	
<b>Current liabilities:</b>	
Accounts payable	199,020
Due to other governmental units	176,790
Accrued liabilities	804,148
Deferred revenue	29,089
State anticipation note	1,555,200
Current portion of long term debt obligations	144,805
	<hr/>
<b>TOTAL CURRENT LIABILITIES</b>	2,909,052
	<hr/>
<b>Non-current liabilities:</b>	
Non-current portion of employee benefit obligations	304,373
Non-current portion of long term debt obligations	2,061,022
	<hr/>
<b>TOTAL NON-CURRENT LIABILITIES</b>	2,365,395
	<hr/>
<b>TOTAL LIABILITIES</b>	5,274,447
	<hr/>
<b>NET ASSETS:</b>	
Invested in capital assets net of related debt	421,287
	<hr/>
Restricted for:	
Capital Projects	1,325,998
Other	353
	<hr/>
Unrestricted	1,693,438
	<hr/>
<b>TOTAL NET ASSETS</b>	\$ 3,441,076
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The accompanying notes are an integral part of these financial statements.

**GWINN AREA COMMUNITY SCHOOLS**

**Statement of Activities**

**For the Year Ended June 30, 2008**

Function / Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
<b>Governmental Activities:</b>				
Instruction	\$ 7,004,336	\$ 29,383	\$ 2,162,052	\$ (4,812,901)
Supporting services	4,568,535	18,171	84,191	(4,466,173)
Community services	84,463	-	-	(84,463)
Food service activities	575,113	169,391	409,592	3,870
Athletic activities	271,162	62,000	98	(209,064)
Other	16,852	-	-	(16,852)
Depreciation - unallocated	246,313	-	-	(246,313)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>12,766,774</b>	<b>278,945</b>	<b>2,655,933</b>	<b>(9,831,896)</b>
<b>General revenues:</b>				
Taxes:				
Property taxes, levied for general purposes				1,601,006
State aid not restricted to specific purposes:				8,196,407
Interest and investment earnings				99,295
Miscellaneous				53,660
<b>TOTAL GENERAL REVENUE AND TRANSFERS</b>				<b>9,950,368</b>
				<b>CHANGES IN NET ASSETS</b>
				118,472
Net Assets , July 1				3,322,604
				<b>NET ASSETS, JUNE 30</b>
				<b>\$ 3,441,076</b>

The accompanying notes are an integral part of these financial statements.

**GWINN AREA COMMUNITY SCHOOLS**

**Governmental Funds**

**Balance Sheet**

**June 30, 2008**

	<b>General Fund</b>	<b>QZAB Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total</b>
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 1,863,508	\$ -	\$ 1,878	\$ 1,865,386
Investments	919,103	1,113,355	268,722	2,301,180
Receivables:				
Accounts receivable	46,896	-	210	47,106
Due from other funds	-	-	10,732	10,732
Due from other governmental units	2,002,505	-	-	2,002,505
Inventories	27,014	-	6,986	34,000
Other	44,059	-	-	44,059
<b>TOTAL ASSETS</b>	<u>\$ 4,903,085</u>	<u>\$ 1,113,355</u>	<u>\$ 288,528</u>	<u>\$ 6,304,968</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>LIABILITIES:</b>				
Accounts payable	\$ 10,879	\$ 56,079	\$ 10,807	\$ 77,765
Accrued liabilities	3,468	-	-	3,468
Accrued expenditures	803,900	-	-	803,900
Due to other funds	123,341	-	8,646	131,987
Due to other governmental units	1,731,990	-	-	1,731,990
Deferred revenue	29,089	-	-	29,089
<b>TOTAL LIABILITIES</b>	<u>2,702,667</u>	<u>56,079</u>	<u>19,453</u>	<u>2,778,199</u>
<b>FUND BALANCES:</b>				
Reserved for:				
School service activities	-	-	353	353
Capital projects	-	1,057,276	268,722	1,325,998
Unreserved:				
Undesignated	2,200,418	-	-	2,200,418
<b>TOTAL FUND BALANCES</b>	<u>2,200,418</u>	<u>1,057,276</u>	<u>269,075</u>	<u>3,526,769</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 4,903,085</u>	<u>\$ 1,113,355</u>	<u>\$ 288,528</u>	<u>\$ 6,304,968</u>

The accompanying notes are an integral part of these financial statements.

**GWINN AREA COMMUNITY SCHOOLS**

**Governmental Funds**

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets**

**June 30, 2008**

**Total Fund Balances for Governmental Funds** **\$ 3,526,769**

*Amounts reported for governmental activities in the statement  
of net assets are different because:*

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds.

Cost of capital assets	9,102,597	
Accumulated depreciation	<u>(6,681,310)</u>	
		2,421,287

Long-term liabilities are not due and payable in the current period and are  
not reported in the funds. Long-term liabilities at year-end consist of:

Bonds payable - current	141,585	
Bonds payable - long term	2,061,022	
Employee benefits payable	<u>304,373</u>	
		(2,506,980)

<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ 3,441,076</u></u></b>
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The accompanying notes are an integral part of these financial statements.

**GWINN AREA COMMUNITY SCHOOLS**

**Governmental Funds**

**Statement of Revenues, Expenditures and Changes in Fund Balance**

**For the Year Ended June 30, 2008**

	<b>General Fund</b>	<b>QZAB Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total</b>
<b>REVENUES:</b>				
Local sources	\$ 1,923,043	\$ -	\$ 231,740	\$ 2,154,783
State Aid	9,236,392	-	40,084	9,276,476
Federal sources	664,663	-	369,506	1,034,169
Other	419,818	-	-	419,818
<b>TOTAL REVENUES</b>	<b>12,243,916</b>	<b>-</b>	<b>641,330</b>	<b>12,885,246</b>
<b>EXPENDITURES:</b>				
Current:				
Instruction	7,111,716	-	-	7,111,716
Supporting services	4,568,535	-	-	4,568,535
Community services	84,463	-	-	84,463
Other	16,852	-	-	16,852
Food service activities	-	-	575,113	575,113
Athletic activities	-	-	271,162	271,162
Capital Outlay	748,761	193,963	30,143	972,867
<b>TOTAL EXPENDITURES</b>	<b>12,530,327</b>	<b>193,963</b>	<b>876,418</b>	<b>13,600,708</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(286,411)</b>	<b>(193,963)</b>	<b>(235,088)</b>	<b>(715,462)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from borrowing	748,761	1,251,239	-	2,000,000
Transfers in	30,091	-	385,036	415,127
Transfers out	(385,036)	-	(30,091)	(415,127)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>393,816</b>	<b>1,251,239</b>	<b>354,945</b>	<b>2,000,000</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>107,405</b>	<b>1,057,276</b>	<b>119,857</b>	<b>1,284,538</b>
Fund Balance, July 1	2,093,013	-	149,218	2,242,231
<b>FUND BALANCE, JUNE 30</b>	<b>\$ 2,200,418</b>	<b>\$ 1,057,276</b>	<b>\$ 269,075</b>	<b>\$ 3,526,769</b>

The accompanying notes are an integral part of these financial statements.

**GWINN AREA COMMUNITY SCHOOLS**

**Governmental Funds**

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures  
and Changes in Fund Balance to the Statement of Activities**

**For the Year Ended June 30, 2008**

**Net Change in Fund Balances - Total Governmental Funds** **\$ 1,284,538**

*Amounts reported for governmental activities in the statement  
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	246,313	
Capital outlays net of retirements	<u>(1,117,866)</u>	
		871,553

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets. (2,000,000)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. -

Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in sick and vacation leave	<u>37,619</u>	
		(37,619)

<b>Change in Net Assets of Governmental Activities</b>	<b><u><u>\$ 118,472</u></u></b>
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The accompanying notes are an integral part of these financial statements.

**GWINN AREA COMMUNITY SCHOOLS**

**Fiduciary Funds**

**Statement of Fiduciary Net Assets**

**June 30, 2008**

	Private Purpose Trust Fund	Student Activities
<b>ASSETS:</b>		
Cash	\$ -	\$ 15,655
Investments	47,603	-
Accounts receivable	-	123
Due from other funds	19,063	102,192
<b>TOTAL ASSETS</b>	<u>\$ 66,666</u>	<u>\$ 117,970</u>
<b>LIABILITIES:</b>		
Accounts payable	-	\$ 1,587
Due to student groups	-	116,383
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>\$ 117,970</u>
<b>NET ASSETS:</b>		
Reserved for:		
Scholarships	47,603	
Unreserved		
Designated for scholarships	19,063	
<b>TOTAL NET ASSETS</b>	<u>\$ 66,666</u>	

The accompanying notes are an integral part of these financial statements.

**GWINN AREA COMMUNITY SCHOOLS**

**Fiduciary Funds**

**Statement of Changes in Fiduciary Net Assets**

**For the Year Ended June 30, 2008**

	Private Purpose Trust Fund
<b>ADDITIONS:</b>	
Interest	<u>\$ 3,596</u>
<b>TOTAL ADDITIONS</b>	<u>3,596</u>
<b>DEDUCTIONS:</b>	
Unrealized loss on investments	6,522
Scholarships awarded	<u>1,825</u>
<b>TOTAL DEDUCTIONS</b>	<u>8,347</u>
<b>CHANGE IN NET ASSETS</b>	(4,751)
Net Assets, July 1	<u>71,417</u>
<b>NET ASSETS, JUNE 30</b>	<u><u>\$ 66,666</u></u>

The accompanying notes are an integral part of these financial statements.

**GWINN AREA COMMUNITY SCHOOLS**

**Fiduciary Funds**

**Statement of Fiduciary Net Assets**

**June 30, 2008**

	<u>Student Activities</u>
<b>ASSETS:</b>	
Cash and cash equivalents	\$ 15,655
Investments	-
Accounts receivable	123
Due from other funds	<u>102,192</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 117,970</u></u>
<b>LIABILITIES:</b>	
Accounts payable	\$ 1,587
Due to student groups	<u>116,383</u>
<b>TOTAL LIABILITIES</b>	<u><u>\$ 117,970</u></u>

The accompanying notes are an integral part of these financial statements.

## **GWINN AREA COMMUNITY SCHOOLS**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2008**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The financial statement of the Gwinn Area Community Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local units of government through its pronouncements. Governments are also required to follow pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, that does not conflict with or contradict GASB pronouncements. The more significant policies established in GAAP and used by the School District are discussed below.

##### *Reporting Entity*

The School District provides elementary and secondary education for the residents of Forsyth, Sands, West Branch and Skandia Townships, and secondary education for the residents of Wells Township. A seven-member Board of Education elected by the public has oversight responsibility over all operations of the School District.

In evaluating how to define the School District for financial reporting purposes, management has considered all potential component units. The decision not to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority; the designation of management; the ability to significantly influence operations; and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of the criteria described above, the financial statements of the Gwinn Area Community Schools contain all the funds and account groups controlled by the School District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District not is the School District a component unit of another entity.

##### *Basic Financial Statements – Government-Wide Financial Statements*

The School District's basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The School District's instruction, support and community services are classified as governmental activities. The School District does not have any business-type activities. Fiduciary activities are not included in the government-wide financial statements.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis, and is reported on full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported as either investment in capital assets, net of related debt, restricted, or unrestricted.

The government-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. General government revenues (property taxes, state aid, etc.) support the functions. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants directly associated with the function.

The government-wide focus emphasizes the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities.

### *Basic Financial Statements -- Fund Financial Statements:*

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund as its major governmental fund in accordance with the above criteria. The funds of the School District are described below:

#### Governmental Funds

**General Fund** – The General Fund is the main operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

**QZAB Fund** – The QZAB Fund is used to account for financial resources of major capital expenditures, including equipment that are purchased through the use of funds received from the issuing of the QZAB Bonds.

**Special Revenue Funds** – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects). The special revenue funds for the Gwinn Area Community Schools are the Food Service, Athletics and Public Library Funds.

**Capital Projects Fund** – The Capital Projects Fund is used to account for financial resources of major capital expenditures, including equipment.

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

### Fiduciary Funds

**Agency Fund** – The Agency Fund accounts for all assets held by the School District in a custodial capacity for various student organizations. Since the Agency Fund is custodial in nature, they do not involve the measurement of results of operations.

**Non-expendable Trust Funds** – Nonexpendable Trust Funds are those whose principal cannot be expended. The administration of the School District treats the Scholarship Fund as nonexpendable due to restrictions of outside contributors.

The emphasis in fund financial statements is on the major funds. Non-major funds by category are summarized into a single column for presentation. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues, or expenditures/expenses of either fund category or the government combined) for the determination of major funds.

The School District's fiduciary funds are presented in the Fund Financial Statements by type. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

The District will first apply restricted net assets for expenses incurred for purposes for which both restricted and unrestricted net assets are available.

## **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

### **Measurement Focus**

On the district-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (b) below. In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.

### **Basis of Accounting**

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

### Cash and Equivalents

The School District cash and cash equivalents as reported in the Statement of Net Assets are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with maturities of three months or less.

### Investments

Investments are carried at market value.

### Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

### Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

### Inventory

The School District utilizes the consumption method of recording inventories of materials and food supplies. Under the consumption method, inventories are recorded as expenditures when they are used. The inventory is valued at the lower of cost (first-in, first-out) or market.

### Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the district-wide financial statements.

### Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the district-wide statements.

### Compensated Absences

The School District' policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.

### Deferred Revenues

In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable. The School District has reported deferred revenue of \$29,089 in the General Fund for grant funding that has been received but is unearned.

### Equity Classification

#### *District-Wide Statements*

Equity is classified as net assets and displayed in three components:

1. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted Net Assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

#### *Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the district-wide statements.

### Revenues

#### *District-Wide Statements*

In the district-wide Statement of Activities, revenues are segregated by activity, and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and

## **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

### *Fund Statements*

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District's policy to use the restricted resources first.

### Property Taxes

Property taxes are levied December 1, on behalf of the District by various taxing units and are payable without penalty by February 28. The District recognizes property tax revenue when levied to the extent they result in current receivables (collected within sixty days of the end of the fiscal year.) Property taxes that are not collected within sixty days of the end of the fiscal year are recognized as revenue when collected.

### Expenses/Expenditures

#### *District-Wide Statements*

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

### *Fund Statements*

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

In the proprietary fund financial statements, expenses are classified by operating and nonoperating and are sub-classified by function such as personnel services and other services and charges.

### Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets.

### Budgets and Budgetary Accounting

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

- c. Prior to July 1, the budget is approved by the Board of Education.
- d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.
- e. All annual appropriations lapse at fiscal year end.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE B – DEPOSITS AND INVESTMENTS:****Cash Equivalents**

As of June 30, 2008, the District's cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and equivalents	\$1,865,386	\$15,655	\$1,881,041
Investments	2,301,180	47,603	2,348,783
	<u>\$4,166,566</u>	<u>\$63,258</u>	<u>\$4,229,824</u>

***Custodial Credit Risk – Deposits***

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require it but the District has a deposit policy for custodial credit risk. The carrying amounts of the School's deposit with financial institutions were \$1,881,041 and the bank balance was \$2,159,907. The bank balance is categorized as follows.

Amount insured by the FDIC	\$100,000
Amount uncollateralized and uninsured	2,059,907
	<u>\$2,159,907</u>

**Investments**

As of June 30, 2008, the District had the following investments.

Investment Type	Fair Value	Maturities Maturities Less Than 1 Year
MILAF Funds	\$2,301,180	\$2,301,180
Wells Fargo Mutual Fund	47,603	47,603
<b>TOTAL INVESTMENTS</b>	<u><b>\$2,348,783</b></u>	<u><b>\$2,348,783</b></u>

***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's investments. The District has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

## NOTE B – DEPOSITS AND INVESTMENTS (Continued):

### *Credit Risk*

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The District has an investment policy that would further limit its investment choices. Ratings are not required for the District's investment in Treasury Notes. The District's investments are in accordance with statutory authority.

### *Concentration of Credit Risk*

The District places no limit on the amount the District may invest in any one issuer.

## NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governments totaled \$2,002,505. Of that balance \$1,704,766 is due from the State of Michigan for State Aid.

## NOTE D – ACCRUED LIABILITIES:

A summary of accrued liabilities at June 30, 2008 is as follows:

	Governmental Activities
Accrued wages	\$601,123
MESSA payable	203,025
Accrued fringes	3,468
	<u>\$804,148</u>

## NOTE E – SHORT-TERM OBLIGATIONS:

The District utilizes short-term borrowing secured with pledged state aid for cash flow purposed due to the timing of state aid payments. A summary of the changes in short-term debt for the year ended June 30, 2008 is as follows:

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
Short-term debt:				
State anticipation note, 2006-2007	\$88,886	\$-	\$88,886	\$-
State anticipation note, 2007-2008	-	1,555,200	-	1,555,200
TOTAL	<u>\$88,886</u>	<u>\$1,555,200</u>	<u>\$88,886</u>	<u>\$1,555,200</u>

**NOTE F – LONG-TERM OBLIGATIONS:**

A summary of long-term obligations at June 30, 2008, and transactions related thereto for the year then ended is as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
School Improvement Bonds – Series 1998	\$202,607	\$ -	\$-	\$202,607	\$19,096
2007 Energy Conservation and Building Improvement and Site Bonds	-	2,000,000	-	2,000,000	122,489
Subtotal	202,607	2,000,000	-	2,202,607	141,585
Employee Benefits	266,754	40,839	-	307,593	3,220
<b>TOTAL LONG-TERM DEBT</b>	<b>\$469,361</b>	<b>\$2,040,839</b>	<b>\$-</b>	<b>\$2,510,200</b>	<b>\$144,805</b>

The annual debt service requirements for the School District's debt (excluding compensated absences) for the years ending June 30, 2008 through June 30, 2023 are as follows:

**BONDS PAYABLE**

The School District participated in the School Improvement Bond, Series 1998, to obtain one-half of their portion of the statewide Durant Settlement. As part of the settlement, the School District will receive one-half of their total settlement \$686,265 over a ten-year period. The remaining one-half of the settlement was received in bond proceeds. The debt service requirements of the bonds will be allocated to the School District by the State of Michigan over a fifteen-year period beginning May 15, 1999, as part of their state aid payments. A schedule of the School District's repayment schedule is as follows:

<b>School Improvement Bonds</b>			
<b>June 30, 2008</b>			
School Year	May 15		Total
	Interest	Principal	
2008-2009	\$5,000	\$19,096	\$24,096
2009-2010	44,297	117,600	161,897
2010-2011	3,138	20,958	24,096
2011-2012	2,140	21,954	24,094
2012-2013	1,095	22,999	24,094
Totals	\$55,670	\$202,607	\$258,277

The Energy Conservation and Building Improvement and Site Bonds, Series 2007 (\$2,000,000) dated December 6, 2007 mature annually on December 6<sup>th</sup>, with interest at a rate of 1.20% per annum. The primary revenue source for making the debt service payment on these Building Improvement Bonds is property taxes, which are levied within the authorized constitutional and statutory tax limitations.

<b>2007 Energy Conservation and Building Improvement and Site Bonds</b>			
<b>June 30, 2008</b>			
School Year	May 6		Total
	Interest	Principal	
2008-2009	24,000	122,489	146,489
2009-2010	22,530	123,959	146,489
2010-2011	21,043	125,447	146,490
2011-2012	19,537	126,952	146,489
2012-2013	18,014	128,476	146,490
2013-2018	66,570	665,875	732,445
2018-2023	25,647	706,802	732,449
Totals	\$197,341	\$2,000,000	\$2,197,341

**NOTE F – LONG-TERM OBLIGATIONS (Continued):**

As of June 30, 2008 the aggregate maturities of long-term debt are as follows:

School Year	Interest	Principal	Total
2008-2009	\$29,000	\$141,585	\$170,585
2009-2010	66,827	241,559	308,386
2010-2011	24,181	146,405	170,586
2011-2012	21,677	148,906	170,583
2012-2013	19,109	151,475	170,584
2013-2018	66,570	665,875	732,445
2018-2023	25,647	706,802	732,449
	<u>\$253,011</u>	<u>\$2,202,607</u>	<u>\$2,455,618</u>
Employee Benefits Payable			307,593
TOTALS			<u>\$2,763,211</u>

**NOTE G – EMPLOYEE BENEFITS – COMPENSATED ABSENCES:**

The School District accrues the liability for earned sick leave based on the termination method. The liability is accrued as the benefits are earned. Teachers meeting the requirements for retirement are paid \$60 per day up to 120 days of unused accumulated sick leave. Other non-teaching employees are paid for sick leave based on their appropriate contract.

As of June 30, 2008 composition of the liability for employee benefits as reported in the statement of net assets is as follows:

Paid time off – Teamsters	\$105,873
Sick leave – Central office & teachers	170,602
Sick leave - Principals	10,700
Personal leave - Principals	775
Vacation – Central office	19,643
	<u>\$307,593</u>

The liability has been recognized as follows:

Current portion	\$3,220
Long-term portion	304,373
	<u>\$307,593</u>

The current portion is recorded as a liability in the General Fund and is included with accrued liabilities.

**NOTE H – CAPITAL ASSETS:**

Capital assets activity of the School District's governmental activities was as follows:

	Balance 7/01/07	Additions/ Adjustments	Deductions	Balance 6/30/08
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$37,293	\$ -	\$ -	\$37,293
Construction in progress	-	224,106	-	224,106
Capital assets being depreciated:				
Site improvements	342,300	-	-	342,300
Buildings and improvements	5,844,238	748,761	-	6,592,999

**NOTE H – CAPITAL ASSETS (Continued):**

	Balance 7/01/07	Additions/ Adjustments	Deductions	Balance 6/30/08
Equipment	\$628,186	\$40,886	\$-	\$669,072
Vehicles and buses	1,132,714	104,113	-	1,236,827
Total Capital Assets	7,984,731	1,117,866	-	9,102,597
Less accumulated depreciation:				
Site improvements	(342,300)	-	-	(342,300)
Buildings and improvements	(4,650,650)	(155,580)	-	(4,806,230)
Equipment	(502,118)	(35,409)	-	(537,527)
Vehicle and buses	(939,929)	(55,324)	-	(995,253)
Total Accumulated Depreciation	(6,434,997)	(246,313)	-	(6,681,310)
Governmental Activities Capital Assets, Net	\$1,549,734	\$871,553	\$-	\$2,421,287

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:	
Unallocated	\$246,313
Total Governmental Activities Depreciation Expense	<u>\$246,313</u>

**NOTE I – RESERVED AND DESIGNATED FUND BALANCE:**

The School District reserves fund equities for the following funds:

School Lunch Fund – The resources of the School Lunch Fund are to be used for the school lunch program. The fund equity is reserved for this purpose.

Scholarship Income – The School District reserves fund balance for the nonexpendable gifts received in the Scholarship Fund. Only the investment income from these gifts is to be used for scholarships.

Unexpended Investment Income on Scholarship Funds: Interest and dividends received on Scholarship Fund investments are to be used for scholarship awards to students. The accumulated balance of unexpended investment income is designated for scholarships.

**NOTE J – STATE REVENUE:**

The State of Michigan currently uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenue from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on the three-year average of the blended pupil membership counts taken in February and September.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2007 - August 2008.

The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

**NOTE K – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:**

The School District reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. Interfund transactions resulting in interfund receivables and payables are as follows.

The amounts of interfund receivables and payables as of June 30, 2008 are as follows:

		DUE FROM OTHER FUNDS			Total Due To Other Funds
DUE TO OTHER FUNDS		Athletic Fund	Trust Fund	Agency Fund	
	General Fund	\$2,086	\$19,063	\$102,192	\$123,341
	Lunch Fund	8,646	-	-	8,646
	Total Due From Other Funds	<u>\$10,732</u>	<u>\$19,063</u>	<u>\$102,192</u>	<u>\$131,987</u>

All internal balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The amounts transferred to and from individual funds for the year ended June 30, 2008 are as follows:

		TRANSFERS OUT			Total Transfers In
TRANSFERS IN		General Fund	Athletic Fund	Lunch Fund	
	General Fund	\$-	\$19,805	\$10,286	\$30,091
	Lunch Fund	6,170	-	-	6,170
	Athletic Fund	228,866	-	-	228,866
	Capital Projects Fund	150,000	-	-	150,000
	Total Transfers Out	<u>\$385,036</u>	<u>\$19,805</u>	<u>\$10,286</u>	<u>415,127</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to Debt Service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, and (3) use unrestricted revenue collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

#### **NOTE L – NON-MONETARY TRANSACTIONS:**

The School District receives USDA donated food commodities for use in its food service program which are accounted for in the School Lunch Fund. The commodities are accounted for on the modified accrual basis and the related revenues and expenditures are recognized as commodities as utilized. The School District recognized \$36,513 during fiscal 2007-08 in revenues and expenditures for USDA commodities.

#### **NOTE M – PROPERTY TAXES:**

The taxable value of real and personal property located in the School District at December 31, 2007 totaled \$232,606,817 (\$118,114,008 designated as Homestead and \$114,492,809 designated as Non-Homestead). The total tax levy consists of 18.0000 mills for the General Fund.

#### **NOTE N – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:**

Substantially all of the School District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death, disability, health, medical, dental, vision, and hearing insurance coverage. Benefits are established by state statute.

The District was required by state statute to contribute 17.74% of covered compensation to the Plan through September 30, 2007 and 16.72% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2008 was \$1,274,480 which consisted of \$1,070,747 from the School District and \$203,732 from employees electing the MIP option. These represent approximately 16.6% and 3.2% of total payroll, respectively. The School District's contributions to MPERS for 2007 and 2006 were \$1,161,668 and \$1,297,303.

Payroll paid to employees covered by the System for the year ended June 30, 2008 was approximately \$6,316,086. The School District's total payroll was approximately \$6,446,751.

## **NOTE N – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):**

Post Employment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverage's contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPSERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPSERS, at MPSERS, P.O. Box 30673, Lansing, Michigan, 48909-8103.

## **NOTE O – CONTINGENT LIABILITIES:**

### Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

### Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District, together with approximately 334 other school districts in the State, participate in the MASB-SEG Property/Casualty Pool, Inc., (Pool) a governmental group property and casualty self-insurance pool. The School District pays an annual premium to the Pool for its general insurance, workers' compensation, and errors and omissions coverage. Members' contributions to the Pool may assess members a supplemental assessment in the event of deficiencies.

The Pool limits the maximum net loss that may arise from large risks or risks in concentrated areas of exposure by re-insuring certain levels of risk with other insurers or re-insurers. The School District's comprehensive and fleet insurance coverage is limited to a maximum of \$6,000,000 per occurrence of all claims. The School District also maintains an additional \$1,000,000 per occurrence for excess liability coverage. The Pool is responsible for paying costs up to the insurance limits with any additional costs covered by the School District.

Management is unaware of any pending or threatened claims that are not covered by the Pool that would be material to the financial statements.

## **NOTE P – ECONOMIC DEPENDENCY:**

The School District received approximately 80 percent of its revenue through state and federal sources to be used for providing elementary and secondary education for the residents of Gwinn. The District's Foundation Allowance is set by the state and includes the local contribution from Non-Homestead taxes. Increases in the local Non Homestead property tax revenues are offset by a corresponding decrease in state aid on a per pupil basis.

## **NOTE Q – CONSTRUCTION IN PROGRESS:**

The proceeds from the sale of the Energy Conservation and Building Improvement and Site Bonds, Series 2007 are for the purposes of partially remodeling, equipping, and re-equipping the High School; acquiring and installing lighting at the High School football field; replacing the High School roof; and developing and improving athletic facilities and the site.

**NOTE Q – CONSTRUCTION IN PROGRESS (Continued):**

As of June 30, 2008 construction contracts totaling \$1,555,117 were entered into for the purposes stated in the preceding paragraph of which, \$942,724 has been completed.

## **REQUIRED SUPPLEMENTAL INFORMATION**

**GWINN AREA COMMUNITY SCHOOLS**

**General Fund**

**Budgetary Comparison Schedule**

**For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
<b>REVENUES:</b>					
Local sources	\$ 1,868,334	\$ 1,916,075	\$ 1,923,043	\$ 47,741	\$ 6,968
State sources	9,110,737	9,228,843	9,236,392	118,106	7,549
Federal sources	586,352	668,522	664,663	82,170	(3,859)
Other	503,490	419,655	419,818	(83,835)	163
					-
<b>TOTAL REVENUES</b>	<b>12,068,913</b>	<b>12,233,095</b>	<b>12,243,916</b>	<b>164,182</b>	<b>10,821</b>
<b>EXPENDITURES:</b>					
<b>Instruction:</b>					
Basic Programs	5,246,296	5,187,600	5,176,857	58,696	10,743
Added Needs	2,066,810	1,935,316	1,934,859	131,494	457
<b>Total Instruction</b>	<b>7,313,106</b>	<b>7,122,916</b>	<b>7,111,716</b>	<b>190,190</b>	<b>11,200</b>
<b>Supporting Services:</b>					
Pupil services	521,581	506,699	506,225	14,882	474
Instructional staff	306,267	406,184	405,265	(99,917)	919
General administration	398,860	349,425	336,644	49,435	12,781
School administration	872,298	861,124	854,603	11,174	6,521
Fiscal services	343,378	264,942	263,503	78,436	1,439
Operation and maintenance	1,374,136	1,182,235	1,176,072	191,901	6,163
Transportation	794,330	807,279	793,896	(12,949)	13,383
Central	173,080	239,088	231,895	(66,008)	7,193
Other	440	625	432	(185)	193
<b>Total Supporting Services</b>	<b>4,784,370</b>	<b>4,617,601</b>	<b>4,568,535</b>	<b>166,769</b>	<b>49,066</b>
<b>Community Services</b>	<b>77,217</b>	<b>86,766</b>	<b>84,463</b>	<b>(9,549)</b>	<b>2,303</b>
<b>Other</b>	<b>10,966</b>	<b>16,855</b>	<b>16,852</b>	<b>(5,889)</b>	<b>3</b>
<b>Capital Outlay</b>	<b>-</b>	<b>748,761</b>	<b>748,761</b>	<b>(748,761)</b>	<b>-</b>
<b>TOTAL EXPENDITURES</b>	<b>12,185,659</b>	<b>12,592,899</b>	<b>12,530,327</b>	<b>(407,240)</b>	<b>62,572</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(116,746)</b>	<b>(359,804)</b>	<b>(286,411)</b>	<b>(243,058)</b>	<b>73,393</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from borrowing	-	748,761	748,761	748,761	-
Transfers in	27,067	16,750	30,091	(10,317)	13,341
Transfers out	(729,342)	(409,813)	(385,036)	319,529	24,777
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(702,275)</b>	<b>355,698</b>	<b>393,816</b>	<b>1,057,973</b>	<b>38,118</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(819,021)</b>	<b>(4,106)</b>	<b>107,405</b>	<b>814,915</b>	<b>111,511</b>
Fund Balance, July 1	2,093,013	2,093,013	2,093,013	-	-
<b>FUND BALANCE, JUNE 30</b>	<b>\$ 1,273,991</b>	<b>\$ 2,088,907</b>	<b>\$ 2,200,418</b>	<b>\$ 814,915</b>	<b>\$ 111,511</b>

**GWINN AREA COMMUNITY SCHOOLS**

**QZAB Fund**

**Budgetary Comparison Schedule**

**For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-	-
Federal sources	-	-	-	-	-
Other	-	-	-	-	-
TOTAL REVENUES	-	-	-	-	-
EXPENDITURES:					
Capital Outlay	1,251,239	150,000	193,963	1,101,239	(43,963)
TOTAL EXPENDITURES	1,251,239	150,000	193,963	1,101,239	(43,963)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,251,239)	(150,000)	(193,963)	1,101,239	(43,963)
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	1,251,239	1,251,239	1,251,239	-	-
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	1,251,239	1,251,239	1,251,239	-	-
NET CHANGE IN FUND BALANCE	-	1,101,239	1,057,276	1,101,239	(43,963)
Fund Balance, July 1	-	-	-	-	-
FUND BALANCE, JUNE 30	\$ -	\$ 1,101,239	\$ 1,057,276	\$ 1,101,239	\$ (43,963)

## **SUPPLEMENTAL INFORMATION**

**GWINN AREA COMMUNITY SCHOOLS**

**Non-Major Governmental Funds**

**Combining Balance Sheet**

**June 30, 2008**

	Special Revenue	Capital Projects	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 1,878	\$ -	\$ 1,878
Investments	-	268,722	268,722
Accounts receivable	210	-	210
Due from other funds	10,732	-	10,732
Inventory	6,986	-	6,986
<b>TOTAL ASSETS</b>	<b>\$ 19,806</b>	<b>\$ 268,722</b>	<b>\$ 288,528</b>
<b>LIABILITIES AND FUND BALANCES:</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 10,807	\$ -	\$ 10,807
Due to other funds	8,646	-	8,646
<b>TOTAL LIABILITIES</b>	<b>19,453</b>	<b>-</b>	<b>19,453</b>
<b>FUND BALANCES:</b>			
Reserved for:			
School service activities	353	-	353
Capital projects	-	268,722	268,722
<b>TOTAL FUND BALANCES</b>	<b>353</b>	<b>268,722</b>	<b>269,075</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 19,806</b>	<b>\$ 268,722</b>	<b>\$ 288,528</b>

**GWINN AREA COMMUNITY SCHOOLS**

**Non-Major Governmental Funds**

**Combining Schedule of Revenues, Expenditures and Changes in Fund Balance**

**For the Year Ended June 30, 2008**

	Special Revenue	Capital Projects	Total
<b>REVENUES:</b>			
School lunch activities	\$ 169,639	\$ -	\$ 169,639
Athletic activities	62,101	-	62,101
State aid	40,084	-	40,084
Federal sources	369,506	-	369,506
<b>TOTAL REVENUES</b>	<b>641,330</b>	<b>-</b>	<b>641,330</b>
<b>EXPENDITURES:</b>			
School lunch activities	575,113	-	575,113
Athletic activities	271,162	-	271,162
Capital Outlay	-	30,143	30,143
<b>TOTAL EXPENDITURES</b>	<b>846,275</b>	<b>30,143</b>	<b>876,418</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(204,945)</b>	<b>(30,143)</b>	<b>(235,088)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	235,036	150,000	385,036
Transfers out	(30,091)	-	(30,091)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>204,945</b>	<b>150,000</b>	<b>354,945</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>119,857</b>	<b>119,857</b>
Fund Balance, July 1	353	148,865	149,218
<b>FUND BALANCE, JUNE 30</b>	<b>\$ 353</b>	<b>\$ 268,722</b>	<b>\$ 269,075</b>

**GWINN AREA COMMUNITY SCHOOLS**

**Non-Major Special Revenue Funds**

**Combining Balance Sheet**

**June 30, 2008**

	<u>School Lunch Fund</u>	<u>Athletic Fund</u>	<u>Total</u>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 1,878	\$ -	\$ 1,878
Investments	-	-	-
Accounts receivable	135	75	210
Due from other funds	-	10,732	10,732
Inventory	<u>6,986</u>	<u>-</u>	<u>6,986</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 8,999</u></u>	<u><u>\$ 10,807</u></u>	<u><u>\$ 19,806</u></u>
<b>LIABILITIES AND FUND BALANCES:</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ -	\$ 10,807	\$ 10,807
Due to other funds	<u>8,646</u>	<u>-</u>	<u>8,646</u>
<b>TOTAL LIABILITIES</b>	<u>8,646</u>	<u>10,807</u>	<u>19,453</u>
<b>FUND BALANCES:</b>			
Reserved for school service activities	<u>353</u>	<u>-</u>	<u>353</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 8,999</u></u>	<u><u>\$ 10,807</u></u>	<u><u>\$ 19,806</u></u>

**GWINN AREA COMMUNITY SCHOOLS**

**Non-Major Special Revenue Funds**

**Combining Schedule of Revenues, Expenditures and Changes in Fund Balance**

**For the Year Ended June 30, 2008**

	<u>School Lunch Fund</u>	<u>Athletic Fund</u>	<u>Total</u>
<b>REVENUES:</b>			
Athletic activities	\$ -	\$ 62,101	\$ 62,101
School lunch activities	169,639	-	169,639
State aid	40,084	-	40,084
Federal sources	369,506	-	369,506
<b>TOTAL REVENUES</b>	<u>579,229</u>	<u>62,101</u>	<u>641,330</u>
<b>EXPENDITURES:</b>			
School lunch activities	575,113	-	575,113
Athletic activities	<u>-</u>	<u>271,162</u>	<u>271,162</u>
<b>TOTAL EXPENDITURES</b>	<u>575,113</u>	<u>271,162</u>	<u>846,275</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	4,116	(209,061)	(204,945)
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	6,170	228,866	235,036
Transfers out	<u>(10,286)</u>	<u>(19,805)</u>	<u>(30,091)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(4,116)</u>	<u>209,061</u>	<u>204,945</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	-
Fund Balance, July 1	<u>353</u>	<u>-</u>	<u>353</u>
<b>FUND BALANCE, JUNE 30</b>	<u><u>\$ 353</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 353</u></u>

**GWINN AREA COMMUNITY SCHOOLS**

**School Lunch Fund**

**Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual**

**For the Year Ended June 30, 2008**

	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>			
School lunch activities	\$ 166,404	\$ 169,639	\$ 3,235
State aid	40,848	40,084	(764)
Federal sources	354,048	369,506	15,458
<b>TOTAL REVENUES</b>	561,300	579,229	17,929
<b>EXPENDITURES:</b>			
School lunch activities:			
Salaries and fringe benefits	310,680	300,955	9,725
Purchased services	13,400	10,894	2,506
Supplies and materials and other expenses	262,461	263,264	(803)
<b>TOTAL EXPENDITURES</b>	586,540	575,113	11,428
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	(25,240)	4,116	29,357
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	24,887	6,170	(18,717)
Transfers out	-	(10,286)	(10,286)
<b>TOTAL OTHER FINANCING SOURCES (USES):</b>	24,887	(4,116)	(29,003)
<b>NET CHANGE IN FUND BALANCE</b>	(353)	-	354
Fund Balance, July 1	353	353	-
<b>FUND BALANCE, JUNE 30</b>	\$ -	\$ 353	\$ 354

**GWINN AREA COMMUNITY SCHOOLS**

**Athletic Fund**

**Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual**

**For the Year Ended June 30, 2008**

	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES:</b>			
Athletic activities	\$ 58,000	\$ 62,101	\$ 4,101
<b>TOTAL REVENUES</b>	<u>58,000</u>	<u>62,101</u>	<u>4,101</u>
<b>EXPENDITURES:</b>			
Athletic activities:			
Salaries and fringe benefits	170,255	159,738	10,517
Purchased services	84,959	93,207	(8,248)
Supplies and materials	<u>21,210</u>	<u>18,217</u>	<u>2,993</u>
<b>TOTAL EXPENDITURES</b>	<u>276,424</u>	<u>271,162</u>	<u>5,262</u>
<b>EXCESS REVENUES OVER (UNDER) EXPENDITURES</b>	(218,424)	(209,061)	9,363
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	235,174	228,866	(6,308)
Transfers out	<u>(16,750)</u>	<u>(19,805)</u>	<u>(3,055)</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>218,424</u>	<u>209,061</u>	<u>(9,363)</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	-
Fund Balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE, JUNE 30</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**GWINN AREA COMMUNITY SCHOOLS**

**Capital Projects Fund**

**Schedule of Revenues, Expenditures and Changes  
in Fund Balance - Budget and Actual**

**For the Year Ended June 30, 2008**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES:</b>			
Miscellaneous	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>TOTAL REVENUES</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES:</b>			
Capital Outlay	<u>31,146</u>	<u>30,143</u>	<u>1,003</u>
<b>TOTAL EXPENDITURES</b>	<u>31,146</u>	<u>30,143</u>	<u>1,003</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(31,146)</u>	<u>(30,143)</u>	<u>1,003</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfer in	<u>150,000</u>	<u>150,000</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>150,000</u>	<u>150,000</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>118,854</u>	<u>119,857</u>	<u>1,003</u>
Fund Balance, July 1	<u>148,865</u>	<u>148,865</u>	<u>-</u>
<b>FUND BALANCE, JUNE 30</b>	<u><u>\$ 267,719</u></u>	<u><u>\$ 268,722</u></u>	<u><u>\$ 1,003</u></u>

## **COMPLIANCE SECTION**



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

Board of Education  
Gwinn Area Community Schools  
Gwinn, MI 49841

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gwinn Area Community Schools, as of and for the year ended June 30, 2008, which collectively comprise the Gwinn Area Community Schools' basic financial statements and have issued our report thereon dated October 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gwinn Area Community School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gwinn Area Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Gwinn Area Community Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Gwinn Area Community Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Gwinn Area Community Schools' financial statements that is more than inconsequential will not be prevented or detected by the Gwinn Area Community Schools' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Gwinn Area Community Schools' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gwinn Area Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

This report is intended solely for the information and use of management, Board of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

October 24, 2008



REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education  
Gwinn Area Community Schools  
Gwinn, Michigan 49841

Compliance

We have audited the compliance of Gwinn Area Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Gwinn Area Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Gwinn Area Community Schools' management. Our responsibility is to express an opinion on the Gwinn Area Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Gwinn Area Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Gwinn Area Community Schools' compliance with those requirements.

In our opinion, Gwinn Area Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Gwinn Area Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Gwinn Area Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Gwinn Area Community Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Board of Education, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Jackman & Company, PLLC*  
Certified Public Accountants

October 24, 2008

GWINN AREA COMMUNITY SCHOOLS  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2008

Federal Grantor Pass Through Grantor <u>Program Title Grant Number</u>	Federal CFDA <u>Number</u>	Approved Grant Award <u>Amount</u>	(Memo Only) Prior Year <u>Expenditure</u>	Accrued (Deferred) Revenue <u>July 1, 2007</u>	Current Year <u>Expenditures</u>	Current Year Cash <u>Receipts</u>	Accrued (Deferred) Revenue <u>June 30, 2008</u>
<b>Direct Award</b>							
U.S. Department of Education Title VII Indian Education	84.060	\$ 15,450	\$ -	\$ -	\$ 15,443	\$ 15,443	\$ -
<b>Passed through Mich. Department of Education:</b>							
ECIA Title I:							
081503 0708	84.010	500,457	-	-	432,261	326,123	106,138
061530 0607	84.010	37,642	37,642	-	-	-	-
071530 0607	84.010	368,307	323,680	96,283	-	96,283	-
Subtotal		<u>906,406</u>	<u>361,322</u>	<u>96,283</u>	<u>432,261</u>	<u>422,406</u>	<u>106,138</u>
Service Provider Self-review 070440 0607	84.027	4,500	1,616	(11)	-	(11)	-
ECIA Title VI Part B Subpart 2							
07660 0607	84.298	41,499	40,262	16,494	-	16,494	-
08660 0708	84.298	43,836	-	-	43,836	32,399	11,437
ECIA Title V:							
080250 0708	84.298	5,568	-	-	5,568	3,169	2,399
070250 0607	84.298	5,732	5,732	-	-	-	-
Subtotal		<u>96,635</u>	<u>45,994</u>	<u>16,494</u>	<u>49,404</u>	<u>52,062</u>	<u>13,836</u>
ECIA Title IID:							
074290 0607	84.318	3,781	3,781	-	-	-	-
084290 0708	84.318	4,262	-	-	4,262	4,262	-
Subtotal		<u>8,043</u>	<u>3,781</u>	<u>-</u>	<u>4,262</u>	<u>4,262</u>	<u>-</u>
ECIA Title IIA:							
060520 0607	84.367	40,757	40,757	-	-	-	-
070520 0607	84.367	99,524	46,862	32,410	-	32,410	-
080520 0708	84.367	153,552	-	-	120,124	82,343	37,781
Subtotal		<u>293,833</u>	<u>87,619</u>	<u>32,410</u>	<u>120,124</u>	<u>114,753</u>	<u>37,781</u>
<b>TOTAL PASSED THROUGH MDE</b>		<u>1,309,417</u>	<u>500,332</u>	<u>145,176</u>	<u>606,051</u>	<u>593,472</u>	<u>157,755</u>

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	(Deferred) Revenue July 1, 2007	Current Year Expenditures	Current Year Cash Receipts	(Deferred) Revenue June 30, 2008
<b>Passed Through Marquette-Alger Regional Educational Services Agency (M.A.R.E.S.A.):</b>							
Health Schools MNN grant #11-0-624180	10.561	\$ 156	\$ -	\$ -	\$ 156	\$ -	\$ 156
P.L. 94-192 Flow Through - #080450 0708	84.027	30,188	-	-	30,188	13,676	16,512
P.L. 94-192 Flow Through - #070450 0607	84.027	65,084	63,962	29,356	-	29,356	-
Subtotal		<u>95,272</u>	<u>63,962</u>	<u>29,356</u>	<u>30,188</u>	<u>43,032</u>	<u>16,512</u>
Perkins - 07-08 8012-02	84.048	5,997	-	-	5,997	5,558	439
Perkins - 06-07 7012-02	84.048	5,702	5,702	-	-	-	-
Subtotal		<u>11,699</u>	<u>5,702</u>	<u>-</u>	<u>5,997</u>	<u>5,558</u>	<u>439</u>
Safe & Drug Free Schools 072860 0607	84.186	3,219	3,219	-	-	-	-
Safe & Drug Free Schools 082860 0708	84.186	3,415	-	-	3,415	-	3,415
Subtotal		<u>6,634</u>	<u>3,219</u>	<u>-</u>	<u>3,415</u>	<u>-</u>	<u>3,415</u>
Title II-D Ed Tech #074240/2-1	84.318	231	74	-	231	231	-
State Improvement Grant #22-0-784180	84.323	298	-	-	298	298	-
Title II-A Improve Teacher Quality	84.367	-	-	-	340	340	-
LEA Medicaid FFS-Transportation	93.778	1,408	574	-	1,408	1,408	-
Learn & Serve #11-0-594280	94.040	1,134	-	-	1,134	557	577
<b>TOTAL PASSED THROUGH M.A.R.E.S.A.</b>		<u>116,832</u>	<u>73,531</u>	<u>29,356</u>	<u>43,167</u>	<u>51,424</u>	<u>21,099</u>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>		<u>1,441,699</u>	<u>573,863</u>	<u>174,532</u>	<u>664,661</u>	<u>660,339</u>	<u>178,854</u>
<b>U.S. Department of Agriculture:</b>							
<b>Passed through MDE:</b>							
Food Distribution:							
Entitlement Commodities	10.550	34,293	22,732	-	34,293	34,293	-
Bonus Commodities	10.550	2,219	809	-	2,219	2,219	-
Subtotal		<u>36,512</u>	<u>23,541</u>	<u>-</u>	<u>36,512</u>	<u>36,512</u>	<u>-</u>

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditure	(Deferred) Revenue July 1, 2007	Current Year Expenditures	Current Year Cash Receipts	(Deferred) Revenue June 30, 2008
Nutrition Cluster:							
<b>Passed through MDE:</b>							
National School Breakfast Program:							
Breakfast 1977 & 1978	10.553	80,621	74,233	-	80,621	80,621	-
Subtotal		80,621	74,233	-	80,621	80,621	-
National School Lunch Program:							
Section 4 -Total Serving 1957 & 1958	10.555	34,891	35,419	-	34,891	34,891	-
Section 11 - Free and Reduced 1967 & 1968	10.555	202,568	192,971	-	202,568	202,568	-
Subtotal		237,459	228,390	-	237,459	237,459	-
Total Nutrition Cluster		318,080	302,623	-	318,080	318,080	-
Summer Food Program	10.559	\$ 14,914	\$ 11,084	\$ 4,086	\$ 14,914	\$ 14,158	\$ 4,842
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>		369,506	337,248	4,086	369,506	368,750	4,842
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>		\$ 1,811,205	\$ 911,111	\$ 178,618	\$ 1,034,167	\$ 1,029,089	\$ 183,696

GWINN AREA COMMUNITY SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2008

**NOTE A – OVERSIGHT AGENCY:**

The U.S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the District's federal awards.

**NOTE B – BASIS OF ACCOUNTING:**

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

**NOTE C – FINAL COST REPORT - FORM DS4044:**

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with either the prior year audited figures or the prior year and current year audit figures combined.

**NOTE D – SCHEDULE OF FEDERAL AWARDS:**

The amounts reported as current payments on the R7120, Grant Section Auditors Report, reconcile with the Schedule of Federal Awards as follows:

Current Payments per R7120:		\$332,238
Plus: Payments not on R7120:		
Passed through M.A.R.E.S.A.	\$51,424	
Passed through Michigan Department of Education	593,472	
Title VII	15,443	
Food distribution commodities	<u>36,512</u>	
		696,851
Less: Deferred revenue at the beginning of the year		
M.A.R.E.S.A.	29,356	
Michigan Department of Education	145,176	
Department of Agriculture	<u>4,086</u>	
		(178,618)
Plus: Deferred revenue at the end of the year		
M.A.R.E.S.A.	21,099	
Michigan Department of Education	157,755	
Department of Agriculture	<u>4,842</u>	
		183,696
Rounding		-
Total Federal Awards Expenditures Reported In the Schedule of Federal Awards		<u><u>\$1,034,167</u></u>

**NOTE E – SCHEDULE OF FEDERAL AWARDS (Continued):**

A reconciliation of expenditures on the Schedule of Federal Awards to federal revenue recognized is as follows:

**GENERAL FUND:**

Total Federal Revenue Sources reported in the financial statements	\$1,034,169
Reconciling Items:	
Other minor differences in program revenues	<u>(2)</u>
TOTAL FEDERAL AWARD EXPENDITURES REPORTED IN THE SCHEDULE OF FEDERAL AWARDS	<u><u>\$1,034,167</u></u>

GWINN AREA COMMUNITY SCHOOLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year June 30, 2008

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the general purpose financial statements of Gwinn Area Community Schools.
2. There were no significant deficiencies disclosed during the audit of the financial statements.
3. There were no instances of noncompliance material to the financial statements of Gwinn Area Community Schools disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs is reported in this schedule.
5. The auditors' report on compliance for the major federal award programs for Gwinn Area Community Schools expresses an unqualified opinion.
6. No audit findings relative to the major federal award program for Gwinn Area Community Schools were disclosed during the audit.
7. The programs tested as major programs were:

<u>Child Nutrition Cluster</u>	<u>CFDA #</u>
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program	10.559

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Gwinn Area Community Schools was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAMS AUDIT

NONE

GWINN AREA COMMUNITY SCHOOLS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the year June 30, 2008

There were no findings and questioned costs  
for major federal awards in the prior year.



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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WISCONSIN  
GREEN BAY  
MILWAUKEE

***Gwinn Area Community Schools***  
***Report to Management Letter***  
***For the Year Ended June 30, 2008***

Board of Education  
Gwinn Area Community Schools  
Gwinn, Michigan 49841

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gwinn Area Community Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Gwinn Area Community Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of the management, Board of Education, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

October 24, 2008